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Title: Philip Morris makes full settlement payment; RJR doesn't
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Philip Morris USA apparently has decided against playing hardball with the states over a hefty settlement payment due in April, but Reynolds American Inc.'s RJR is hanging tough.

On Friday, Philip Morris, the nation's largest cigarette maker, made its $3.4 billion payment, even though it believes that sum eventually should be reduced to reflect market losses it suffered due to its participation in the 1998 Master Settlement Agreement.

RJR, based in Winston-Salem, N.C., also made its payment Friday but decided not to pay the full amount, company spokesman David Howard said. Howard declined to provide details about the company's payment.

Philip Morris, RJR and Loews Corp.'s Lorillard have sought to cut $1.2 billion from the $6.5 billion due April 17. The companies say a provision in the settlement allows them to reduce payments to the 46 states if they collectively lose market share to so-called "nonparticipating manufacturers" - or players operating outside the pact.

But the big tobacco companies also must prove that the states did not adequately enforce statutes requiring the outsiders to place funds in escrow accounts in case of future state litigation.

Philip Morris, the company behind the No. 1 Marlboro brand, still could possibly get a reduction. But it has opted to meet the states' demands while it negotiates. "We will continue to pursue our dialogue with the state attorneys general in order to come to a mutually agreeable resolution," said Michael Neese, a spokesman for Philip Morris, owned by New York-based Altria Group Inc.

RJR's hard-line approach may anger the states, which have been pressuring companies to make their full payments by the deadline. Several states are threatening legal action if the big manufacturers attempt to make reductions.

A spokesman for Lorillard, based in Greensboro, N.C., said Friday he had no immediate comment on the company's payment plans.

"We believe it is very responsible of Philip Morris to make this full payment," said Bob Brammer, a spokesman for Iowa Attorney General Tom Miller. Miller is also tobacco-committee co-chairman for the National Association of Attorneys General.

Monday, an independent economic consultant, the Brattle Group, found that the settlement was a "significant factor" contributing to the large companies' market-share losses.

Because of the way the payments are structured, the money owed this year would take into account the companies' market-share losses in 2003. That year, the companies saw their share of the market drop to about 92 percent, which compares to an estimated 99 percent of the market before the settlement.

State attorneys general say the settlement, which reimbursed states for smoking-related health care costs, has helped reduce smoking consumption. Today, many states now rely heavily on the tobacco companies' payments. States and localities have issued billions in dollars in bonds backed by future settlement payments.

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